

Message Text

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41

ACTION TRSE-00

INFO OCT-01 EUR-12 EA-07 NEA-10 ISO-00 SP-02 USIA-06

AID-05 EB-07 NSC-05 CIEP-01 SS-15 STR-04 OMB-01

CEA-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02

OPIC-03 LAB-04 SIL-01 IO-13 L-03 PRS-01 PA-01 USIE-00

IGA-02 SSO-00 NSCE-00 INRE-00 H-02 /119 W

----- 118592

O R 031744Z AUG 76

FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 3574

AMEMBASSY MANILA IMMEDIATE

INFO AMEMBASSY BANGKOK

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMEMBASSY ISLAMABAD

AMEMBASSY JAKARTA

AMEMBASSY LONDON

AMEMBASSY NEW DELHI

AMEMBASSY OTTAWA

AMEMBASSY ROME

AMEMBASSY SEOUL

AMEMBASSY TOKYO

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PASS TO TREASURY

E. O. 11652: N/A

TAGS: EAID, EFIN

SUBJECT: INCREASE IN ADB LENDING RATE

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REFTEL: STATE 188415

1. OWING TO FRENCH VACATION SCHEDULES, EMBASSY OFFICER NOT RECEIVED UNTIL TODAY AT FINANCE MINISTRY BY M. PFAUWADEL. LATTER TOOK CAREFUL NOTE OF ALL POINTS CONSTITUTING US POSITION AS CONVEYED IN REFTEL. HE THEN PROCEEDED TO A THOROUGH DISCUSSION OF THE FRENCH POSITION AS SUMMARIZED BELOW.

2. WITH RESPECT TO THE ADB LENDING RATE, GOF OPPOSES AN INCREASE TO 9.15 PERCENT AT THIS TIME BUT WOULD BE COMFORTABLE WITH ANY RATE IN THE 9.00 TO 9.10 PERCENT RANGE. THE FRENCH DO NOT WISH TO BE THE SOLE OBSTACLE TO AGREEMENT ON A NEW RATE, HOWEVER, AND AS A FALLBACK WOULD ACCEPT A 9.15 PERCENT RATE IF OTHER COUNTRIES FAVORING A LOWER RATE ARE PERSUADED FIRST. PFAUWADEL EXPLAINED THAT THE FRENCH POSITION IS BASED ON THREE MAIN CONSIDERATIONS:

(A) THE STRONG CURRENT LIQUIDITY OF THE ADB AND THUS THE ABSENCE OF NEED FOR STEPS CALCULATED TO ENHANCE THE ADB'S ABILITY TO RAISE ADDITIONAL FUNDS. HE MADE A DIRECT LINKAGE BETWEEN THE PROPOSED 9.15 PERCENT LENDING RATE AND PLANS FOR "ANTICIPATORY" ADB BORROWING ON THE PRIVATE MARKET. HE INDICATED THAT GOF COOLNESS TOWARDS SUCH ADDITIONAL BORROWING WAS ONE REASON FOR OPPOSING THE HIGHER RATE.

(B) GOF DOES NOT AGREE THAT A 0.25 PERCENT SPREAD BETWEEN THE IBRD AND ADB LENDING RATES IS DESIRABLE, PARTICULARLY IN VIEW OF THE 0.20 PERCENT SPREAD BETWEEN THE TWO BANKS' RESPECTIVE BORROWING COSTS.

(C) GOF IS SWAYED BY THE CURRENT STRONG OPPOSITION OF THE DUTCH, THE SCANDINAVIANS, AND THE LDC'S TO A HIGHER ADB LENDING RATE.

3. RE AN OCTOBER 1 AUTOMATIC ADJUSTMENT OF THE ADB LENDING RATE, PFAUWADEL SAID GOF DEFINITELY OPPOSED, BASED ON A FRENCH RELUCTANCE TO SEE REGIONAL DEVELOPMENT BANK LENDING RATES AUTOMATICALLY LINKED TO IBRD RATE.
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HE EXPLAINED THIS IN TERMS OF (A) GOF DESIRE FOR RATE STABILITY (AS CONTRASTED WITH FREQUENT FLUCTUATIONS IN THE IBRD RATE) AND (B) A DESIRE FOR SEPARATE, AUTONOMOUS TREATMENT OF REGIONAL DEVELOPMENT BANKS TO PERMIT TAILORING OF DECISIONS TO SPECIAL SITUATIONS PERTAINING IN A GIVEN REGION AT A PARTICULAR TIME.

4. WITH RESPECT TO THE LEVEL OF COMMITMENT CHARGES AND TO THE SIZE OF THE SINGAPORE-HONG KONG PREMIUM, PFAUWADEL SAID THAT SUCH "MINOR MATTERS" ARE LEFT TO THE DISCRETION OF THE FRENCH DIRECTOR AT THE ADB. HE SAID THAT HE WAS UNAWARE OF THE FRENCH DIRECTOR'S POSITION AND THAT, ALTHOUGH HE WOULD BE GLAD TO INQUIRE, THE FINANCE MINISTRY WOULD NOT WISH TO TIE THE HANDS OF THE FRENCH REPRESENTATIVE IN SUCH MATTERS.

GAMMON

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